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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 001038

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SUBJECT: TAIWAN: CONTACTS PREDICT KMT VICTORY, DEFEAT OF
DPP REFERENDUM, DIFFER OVER LIKELY PRC RESPONSE

REF: BEIJING 959 AND PREVIOUS

Classified By: Political Minister Counselor Aubrey Carlson.
Reasons 1.4 (b) and (d).

Summary

11. (C) Three days before Taiwan's March 22 presidential election and vote on competing referenda concerning Taiwan's participation in the UN, Embassy contacts continue to predict a victory for the KMT's Ma Ying-jeou and defeat of the two referenda. Opinions continue to diverge, however, over Beijing's likely reaction in the event the DPP-sponsored referendum passes (reftel). Two contacts cautioned that the referendum's passage would elicit a "strong" PRC reaction. According to another scholar, however, although the DPP referendum's passage alone would likely cause a "rhetorical crisis," there is virtually no chance of it leading to PRC military action. The key to Beijing's response, this scholar argued, will be how Taiwan leaders interpret any passed referendum. Scholars also expressed concern over the possible passage of the KMT's competing referendum on UN membership. In the aftermath of a probable Ma Ying-jeou victory, contacts predicted cross-Straits relations would improve but played down prospects for a dramatic breakthrough. End Summary.

Ma Likely to Win, Referenda to Fail

12. (C) As Taiwan's March 22 presidential election and vote on referenda concerning Taiwan's participation in the UN draw near, Embassy contacts continue to predict a victory for the KMT's Ma Ying-jeou and defeat of the two competing referenda. Cao Huayin (strictly protect), Deputy Secretary General of the China Reform Forum (CRF) think tank, told PolOff on March 18 that it is "almost certain" that Ma Ying-jeou will win the election and that the two referenda will fail. Frank Hsieh's last-minute politicking and the Tibet issue appear to be narrowing the race, but neither appears sufficient to swing the election in favor of the DPP, Cao stated. Well-connected journalist Chen Jieren (strictly protect) expressed a similar view on March 17, finding it "highly unlikely" that the DPP-sponsored referendum would pass, given that "even Frank Hsieh," the DPP presidential candidate, "doesn't really want" the referendum to succeed.

13. (C) Xu Shiquan (protect), Chairman of the National Society of Taiwan Studies and former Director of the Chinese Academy of Social Sciences (CASS) Institute of Taiwan Studies, told PolOff on March 17 that he saw "virtually no chance" for the DPP's UN referendum to pass, though he was concerned about the prospects for the KMT-sponsored referendum (see para 7

below). Regarding the presidential race, Xu said two Mainland pollsters he trusts on Taiwan both predict a Ma Ying-jeou victory. One pollster assesses that, at a minimum, Ma will garner 53 percent of the vote, while Hsieh will get no more than 47 percent. The other pollster, who Xu said has been quite accurate in the past, has it at 61-39 for Ma. Xu predicted that Ma would win by seven to eight percentage points. He found it more likely that Ma would win by a huge margin of 20 points or more than it would be for Frank Hsieh pull out a victory.

Surprise Factor?

14. (C) Xu Shiquan said he expects the DPP's Frank Hsieh to "try some tricks" this week before the election, much as he and his supporters reportedly did in the Kaohsiung mayoral race a few years back when they falsely claimed that the KMT was paying 500 New Taiwan Dollars for votes on election day. Xu assessed, however, that the KMT had inoculated the Taiwan electorate to such moves by repeatedly warning of expected "dirty tricks" by Chen Shui-bian or Hsieh. The recent "invasion" of Hsieh's campaign headquarters by KMT legislators was "ill-conceived," but Hsieh is not getting the mileage out of it he wanted, Xu argued, because it is becoming clear the legislators did not "kick down the doors" as alleged and because Ma has been very "humble and apologetic" about the incident. Similarly, Hsieh does not appear to be getting traction on the "green card issue." In contrast, Xu worried about the "one-China market" issue causing concern among the Taiwan working class, but he did not think its impact would be significant enough to swing the election. Xu agreed with Cao's assessment that, while the Tibet issue might be making the race slightly closer, it

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won't play a significant role in the outcome, given that both candidates had condemned the PRC crackdown in Tibet.

PRC Response to a Passed Referendum: Divergent Views

15. (C) As reported earlier (reftel), Beijing contacts continue to differ over the PRC's probable response to passage of the DPP-sponsored referendum, however unlikely that outcome might be. Journalist Chen Jieren told PolOff that, in the unlikely event that the referendum passes, China is "guaranteed to overreact," although that does not automatically mean taking military action. The PRC leadership has "painted itself into a corner," leaving it "no choice" but to overreact. Internal guidance has already been issued to the People's Daily and other official papers to "resolutely oppose" the passage, Chen said, warning that China's opposition in such an event will be totally "over the top" and "unlike anything we have seen in recent years." Xu Shiquan also said that passage of the DPP referendum could lead to a "strong" PRC reaction, though he declined to offer specifics.

16. (C) The CRF's Cao was more sanguine, telling PolOff that Washington "should not worry" and arguing that Beijing will not do anything "rash," even if the DPP referendum passes. The referendum's passage alone will not lead to a PRC military response, he declared. Although passage of the referendum might bring about a "rhetorical crisis," the real key to Beijing's response will not be the referendum's passage, but rather how that outcome is interpreted by the winner of the Taiwan presidential election. If Taiwan's new president interprets a successful referendum to mean that Taiwan is independent, then "all bets are off" and we will be in the middle of a "very serious crisis." But "no one" in Taiwan is "stupid enough" to do that, Cao argued. Acknowledging the existence of hard-line voices in Beijing, many of whom are affiliated with the PLA, Cao said it is "their job" is to "talk tough" and deter Taiwan independence moves. But these hard-line elements are not in charge. The

decision on how to respond to a Taiwan crisis is President Hu Jintao's, together with the nine-member Politburo Standing Committee, Cao stated.

17. (C) Some Beijing scholars have also begun to express concern over the possibility that the KMT-sponsored referendum might pass. (Note: While the DPP-sponsored referendum calls for joining the UN "in the name of Taiwan" and has been the focus of PRC official complaints, the KMT referendum calls for "return" to the UN under the "Republic of China" or other unspecified name.) The CRF's Cao said the likelihood of passage of the KMT referendum has increased following the KMT's decision to boycott only the DPP referendum, while the DPP is calling on its followers to vote in favor of both. Although Cao acknowledged the KMT referendum is "not as bad" as the DPP's referendum, passage of the KMT measure still "would not be good." Xu Shiquan expressed a similar concern, saying that some in Beijing even believe passage of the KMT's referendum could be interpreted as "an act of sovereignty," which would be a "bitter pill" to swallow. Nevertheless, even if the KMT referendum passes, Xu said he expected Ma to downplay its significance by calling it an expression of the will of the Taiwan people for greater international engagement. (Note: Central Party School Professor Kang Shaobang also recently told PolOff that possible passage of the KMT referendum was a concern, though he said such an outcome would not be nearly as serious as passage of the DPP-sponsored referendum.)

Lowering Expectations for a Ma Presidency

18. (C) If Ma Ying-jeou wins the March 22 election as expected, Mainland scholars believe cross-Straits relations will improve, though they played down prospects for a dramatic breakthrough. According to Xu Shiquan, even though China hopes to see a Ma victory, there is likely to be only "moderate improvement" in cross-Straits relations should he, in fact, win. Initially Ma will have to be "careful" and will be unable to move too quickly. Instead, Ma will need to focus on the transition while watching out for his "personal security." Even if the DPP were to be out of power, it would likely vigorously protest any moves a President Ma might make to get closer to the Mainland. The CRF's Cao, while slightly more optimistic than Xu, also sounded a note of caution. Cao said Beijing would "take the initiative to improve relations" following a Ma victory. Nevertheless, Cao cautioned against expecting a dramatic breakthrough in cross-Straits relations,

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noting that Ma Ying-jeou is "weak and passive" and therefore might be "forced" by opponents to demonstrate that he is not "too pro-PRC," which will serve as a brake on the improvement of relations.

19. (C) Although both Xu and Cao said Beijing is hoping for a Ma Ying-jeou victory, they conceded that "anyone" is better than Chen Shui-bian. Xu thought that if the DPP's Frank Hsieh does win the election, he will likely be "craftier and more subtle" than Chen Shui-bian in pushing Taiwan independence so as to avoid causing a rift in Taipei's relations with Washington. Cao believed that improved cross-Straits relations would be possible under a President Frank Hsieh, arguing that Beijing is prepared to work with either candidate. The key, Cao emphasized, is not who wins the election, but rather the victor's "attitude" toward the cross-Straits issues most important to Beijing.

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